

**New Jersey Public Broadcasting Authority
Audit Committee Meeting
November 16, 2010, 4:00 PM
NJN Studios – Trenton
25 South Stockton Street, Trenton, N.J.**

MINUTES

Participants: Scott Kobler, Chair (via phone), Stephanie Hoopes Halpin (via phone), Steven Petrecca, Assistant State Treasurer, Department of the Treasury; Kent Manahan (via phone) Clifford Rones, Deputy Attorney General; Andy Pratt, Treasury; Janice Selinger, NJPBA Acting Executive Director; Sam Braun, NJPBA, Controller; Sherise Ritter, Mercadien Group (via phone); Jill Ann Murphy, Mercadien Group (via phone); Judy Goetz, NJN Board of Commissioners Secretary taking minutes, Jeff Hamer.

Mr. Kobler, Chair, called the meeting to order at 4:10 PM. Mr. Kobler stated that this is an open public meeting. Notice of this meeting has been filed with the Office of the Secretary of State, posted on the appropriate bulletin boards maintained for such purposes by the New Jersey Public Broadcasting Authority (the "Authority"), and distributed by press release to two daily newspapers in New Jersey. Notice was made in advance of this meeting.

I. Review NJN Audit Compiled by the Mercadien Group

Ms. Ritter reviewed the Report to the Audit Committee that Mercadian prepared. This is a required document.

Ms. Ritter reviewed the auditor's responsibility under professional standards. No significant or unusual transactions were identified. The Management's judgments and accounting estimates are outlined in the report.

Regarding the Financial Statement Disclosures – Mercadien identified a going concern matter which has been discussed with management relating to the neutrality, consistency and clarity of the disclosures in the financial statements.

Ms. Ritter reviewed the audit adjustments. Assets increased by \$435,577, liabilities decreased by \$544,372, revenue increased by \$90,000 and expenses decreased by \$194,465. Some of these adjustments are the result of a lack of a general ledger and others are a result of timing of collections (for example, State Lottery payment). There was less of an un-reconciled amount this year.

Ms. Ritter stated that it is important that the Audit Committee and the Board take a look at the representations that management has made to the auditors in the letter distributed regarding the combining statement of net assets.

Mr. Kobler requested a change in paragraph #6 in terms of using "material weakness" when referencing the lack of the general ledger. Mr. Ritter explained that the term "material weakness" is defined on page 24 of Audit. This is a deficiency in internal control which is the lack of the general ledger. Mr. Kobler stated that he would prefer that this be stated to reflect the material weakness is due to the lack of a general ledger. Ms. Ritter said she would change this to be more specific.

Ms. Murphy reviewed the Combining Financial Statements. Ms. Murphy explained that pages 1-7 is Management's Discussion and Analysis. The auditors do not prepare this and this is unaudited. It is required supplemental information.

Mr. Kobler asked about the cost of the full digital conversion referenced on page 3. He asked what the source was for the \$10 million number. Mr. Braun stated that the two engineering directors, Bob Dorsey and Rick Williams supplied the numbers and they have supporting documentation for this information.

Mr. Kobler referenced the statement (page 3) *In light of the State's fiscal difficulties future funding from State sources is unlikely. If in a position to do so financially, the Authority will apply for federal matching grants, while the Foundation will work with professional counsel on seeking the major funding necessary to meet the Authority's future capital needs.* Mr. Kobler asked if the Foundation agreed to this. Mr. Braun stated that they talked about doing capital campaigns. Mr. Kobler suggested and the committee and staff agreed to a change in wording.

Mr. Kobler suggested that a change be made on page 5. Change "co-owners" in paragraph three to say Legislature and Governor.

Ms. Murphy stated, as reported on page 8 of the Audit Report, that in Mercadien's opinion the financial statements are presented fairly, in all material respects, the combined financial statements of the Authority and the FNJPB as of June 30, 2010. She noted that the report notes that the financial statements have been prepared assuming that the authority will continue as a going concern. As discussed in Note L, to the financial statements, it is uncertain if support will be provided to the Authority from the State of New Jersey after January 1, 2011.

Ms. Murphy reviewed the Combining Statement of Net Assets. The total assets on a combined basis are \$9.9 million. Current Assets are primarily Cash and cash equivalents of \$2.3 million and accounts receivable of \$2.2 million.

Ms. Ritter stated that as of June 30, 2010 on a combined basis, NJN has net assets of roughly \$6.5 million but noted that \$5.2 million of that was tied up in non-liquid capital assets and not much in the way of liquid assets.

Ms. Murphy reviewed the Statement of Support, Revenues and Expenses and Changes in Net Assets (Page 11). The total support and revenues on a combined basis is \$17.5 million, including grants from the Foundation of \$2.8 million. The tower rental amount

has significantly increased due to the EBS Clearwire contract of \$3 million. The change in net assets was a positive of \$52,000 this year.

In the Combined Statement of Cash Flows (Pg. 12), the total of net cash in operating activities is \$4.5 million. The net increase in cash at the end of the year was \$25,000. The most significant item in the reconciliation of excess of expenses over revenues before general appropriations and contributed services and facilities to net cash used in operation activities is the \$7.3 in contributed services and facilities from the State of New Jersey.

Pages 13 through 20 are the standard footnote disclosures. Ms. Murphy asked if the Committee had a chance to review footnote "L – Subsequent Events". Mr. Kobler asked for deletion of the sentences "The Governor has proposed elimination of subsidies and support as of January 1, 2011. Management's plan is to make the Authority a public media corporation over a two year period, which is under the task Force's consideration amongst other proposed plans, including the Foundation's plan". The Committee and staff agreed as these decisions have not yet been made.

Ms. Ritter stated that management's plans to deal with this need to be included in this report. Mr. Kobler suggested that it read something like NJN's future entity will be determined by the Legislature and the Governor. As of this writing, the decision has not been determined.

Ms. Hoopes Halpin suggested that the next paragraph regarding the Foundation seeking to become NJN's future non-profit operator be removed as well. The Committee agreed.

Ms. Ritter stated that if the Foundation, at their next Audit meeting, indicates this is their intent, this note would have to be reinstated in the footnote disclosures. The Committee agreed.

Ms. Hoopes Halpin stated that it is very impressive that the audit was done on time. Last year there were more changes. Ms. Ritter stated that Albertha Hyche of Treasury was helpful in this process. Mr. Kobler thanked Albertha, Mr. Braun, staff and Ms. Selinger for their work.

Ms. Murphy stated that The Prior Audit Finding (Page 22) is the recurring General Ledger issue. Page 23 is the same finding but for the current year. This is also documented in Mercadien's Report on Internal Control and Compliance (page 24) which is required by Government Auditing Standards. There were no issues regarding compliance and nothing new to report as was the case in the prior year. Ms. Hoopes Halpin suggested including the date of the PBA Finance meeting that the State Treasurer advised suspending the implementation project for a General Ledger System. Ms. Goetz will get the date and it will be inserted in Page 22 and 23 of the Findings. (July 22, 2010)

Mr. Kobler asked what is next. Ms. Ritter stated that (1) the Foundation Audit Committee was scheduled for November 17. Mercadien will look at the Foundation as

stand-alone and that could have an impact on the combined statements. (2) Changes will be incorporated into these documents that were discussed today. (3) Sign the Representation Letter, send it back to Mercadien and they will release the final statements. (4) The six month audit will have to be set up once we know what is going on with NJN. Mr. Petrecca said, as of now, he is still looking at January 1st as the end of NJPBA operations and the current situation with NJN. We should know more in the next couple of weeks.

Ms. Ritter stated that if NJN comes to an end December 31st we will have to figure out who will be around to get the audit completed. Ms. Ritter said it would be good if they could come to NJN in December and update the files and have access to records with people who know what is going on. Mr. Kobler stated that he would prefer not to speculate on the future of NJN but to include the Audit Committee and Audit in any “wind-up” plans. Ms. Hoopes Halpin thought that a December visit is a good idea.

Mr. Braun stated that we have an extension for the CPB report till December 31st. The report will get done on time but there is another CPB report, the Station Activity Benchmark Survey that has to get done which CPB hasn’t even released yet which is usually due in mid-February. That is a report that has to be completed before they would release the other half of the CPB money. There will be staffing issues in getting all of this done. He will try to accommodate having the auditors visit in December but there is the concern of having enough staff available as they plan on taking unused time off in December before they lose it. We will do the best we can.

Mr. Braun stated now that we have final numbers he will begin working on the CPB Report and have it done by the end of December.

II. Motion to Recommend Approval of NJN audit by the NJPBA Board of Commissioners.

Mr. Kobler made a motion to recommend approval of the NJN audit by the NJPBA Board of Commissioners with the changes that were made. Steve Petrecca seconded the motion. The motion was approved unanimously.

III. Other Business - Approval of the Minutes of the September 17, 2010 Meeting

Ms. Hoopes Halpin made a motion to approve the minutes of the September 17, 2010 Audit Committee meeting. Mr. Petrecca seconded the motion. The motion was approved unanimously.

IV. Executive Session

Ms. Hoopes Halpin made a motion to go into Executive Session. Mr. Kobler seconded the motion. The motion carried unanimously.

Ms. Hoopes Halpin made a motion to exit Executive Session. Mr. Kobler seconded the motion. The motion carried unanimously.

V. Adjournment

Mr. Kobler made a motion to adjourn the meeting. Mr. Petrecca seconded the motion. The motion carried unanimously.

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